

Message Text

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ACTION EA-12

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C O N F I D E N T I A L PEKING 2281

E.O. 11652: GDS

TAGS: ELAB EFIN CH

SUBJ: CHINA INCREASES WAGES: COMMENTS

REF: A) HONG KONG 11892, B) PEKING 2208, C) HONG KONG 11476

1. SUMMARY. AN INDUSTRIAL WAGE INCREASE COMBINING BOTH INCENTIVE AND WELFARE FEATURES IS IMMINENT OR IN EFFECT IN CHINA. THE DIFFICULT QUESTION OF INSTITUTIONALIZING PRODUCTION BONUSES AND OTHER MATERIAL INCENTIVES IS STILL APPARENTLY UNDER DISCUSSION. FINANCIAL IMPLICATIONS ARE DIFFICULT TO ESTIMATE, BUT PRODUCTION INCREASES PLUS BANK EFFORTS TO ATTRACT DEPOSITS SHOULD COMBINE TO OVERCOME INFLATIONARY PRESSURES. END SUMMARY

2. VICE PREMIER LI HSIEN-NIEN'S RECENT COMMENTS (REF A) REGARDING AN IMMINENT WAGE INCREASE AUTHORITATIVELY CONFIRM AND ILLUMINATE OTHER RECENT REPORTS ON THIS SUBJECT (REFS B, C). LI REPORTEDLY TOLD WALL STREET JOURNAL EXECUTIVES THAT 50 TO 60 PERCENT OF ALL WORKERS WILL RECEIVE WAGES AVERAGING 15-20 PERCENT OF THEIR
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SALARIES. ALL WORKERS IN THE LOWEST GRADES (SOME 40 PERCENT OF INDUSTRIAL WORKERS) WILL RECEIVE INCREASES. IN ADDITION, THERE WILL BE SELECTIVE INCREASES WITHIN THE HIGHER LEVELS. THE ADJUSTMENT HAS ALREADY TAKEN PLACE IN AT LEAST SOME CANTON FACTORIES, ACCORDING TO AN AUSTRALIAN DIPLOMAT WHO VISITED THE FACTORIES IN EARLY OCTOBER. RELUCTANT TO DISCUSS DETAILS, FACTORY

OFFICIALS SAID ONLY THAT ONE-GRADE INCREASES HAD BEEN GIVEN TO GRADE TWO WORKERS IN GRADE SINCE 1966 AND GRADE ONE WORKERS IN GRADE SINCE 1971.

3. LI'S COMMENTS APPEAR TO RECONCILE CONFLICTING INFORMATION IN OTHER REPORTS ON THE SIGNIFICANT QUESTION OF THE EXTENT TO WHICH THE WAGE INCREASE WILL REWARD PRODUCTIVITY, AND THUS CONSTITUTE A ONE-TIME INCENTIVE AWARD. APPARENTLY, SOME INCREASES WILL REWARD OUTSTANDING PRODUCTIVITY AMONG WORKERS IN HIGHER GRADES AND PROBABLY IN LOWER GRADES AS WELL. AT THE SAME TIME, THE GENERAL INCREASE FOR LOW-PAID WORKERS WILL NOT DIRECTLY REWARD PRODUCTIVITY, BUT WILL MODERATELY RAISE LIVING STANDARDS FOR ALL MEMBERS OF THIS GROUP.

4. SIGNIFICANTLY, IT WOULD STILL APPEAR THAT NO DECISION HAS YET BEEN REACHED ON THE INSTITUTIONALIZATION OF MATERIAL INCENTIVES AS A PERMANENT FEATURE OF PRC INDUSTRIAL REMUNERATION AS THEY ARE IN AGRICULTURE. A DECISION ON THIS DIFFICULT POLITICAL AND ECONOMIC ISSUE COULD BE ANNOUNCED AT THE CONFERENCE ON WAGES NEXT YEAR. VERY POSSIBLY, THE HUA GOVERNMENT WILL OPT FOR ANNUAL PRODUCTIVITY-RELATED INCREASES.

5. THE FINANCIAL COST AND IMPACT OF THE PRESENT WAGE INCREASE ARE NEARLY IMPOSSIBLE TO ASSESS CLEARLY. ASSUMING AN

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AVERAGE WAGE OF 45 YUAN A MONTH FOR THOSE RECEIVING INCREASES, AND ASSUMING THAT 30 MILLION WORKERS ARE INVOLVED, A 15 TO 20 PERCENT INCREASE WOULD ADD APPROXIMATELY 2.4 TO 3.2 BILLION YUAN A YEAR TO THE WAGE BILL. THE EXTENT TO WHICH THIS INCREASE WILL CREATE INFLATIONARY PRESSURES DEPENDS UPON 1) HOW MUCH OF THE INCREASE IS SAVED AND 2) THE RELATIVE INCREASE IN GOODS AVAILABLE FOR PURCHASE. THE VALUE OF INDUSTRIAL CONSUMER GOODS ANNUAL PRODUCTION CAN BE VERY ROUGHLY ESTIMATED AT 21 BILLION YUAN IN 1975 AND PERHAPS ABOUT THE SAME IN 1976. ACCORDING TO NCNA SEPTEMBER 28, LIGHT INDUSTRIAL OUTPUT FROM JANUARY TO AUGUST 1977 WAS UP 12 PERCENT FROM THE SAME 1976 PERIOD. ASSUMING 12 PERCENT GROWTH THIS YEAR THERE SHOULD BE AN ADDITIONAL 2.5 BILLION YUAN WORTH OF CONSUMER GOODS ON THE MARKET THIS YEAR AND MORE NEXT YEAR. THIS YEAR .6 TO .8 BILLION OF THIS INCREASED PRODUCTION WOULD COVER THE WAGE IN THE LAST QUARTER. NEXT YEAR, OTHER THINGS BEING EQUAL AND ASSUMING ANOTHER RECOVERY INCREASE OF 10 PERCENT, AN ADDITIONAL 2.5 BILLION YUAN IN GOODS WOULD BE AVAILABLE TO COVER THE INCREASED PURCHASING POWER.

6. THE PEOPLE'S BANK OF CHINA, WHICH LAST MONTH

HEID A NATIONAL CONFERENCE (NCNA SEPTEMBER 25),
WILL PROBABLY STEP UP EFFORTS TO ATTRACT SOME OF
THE INCREASE INTO SAVINGS DEPOSITS. IN ADDITION TO CONTROLLING
PURCHASING POWER, THE PEOPLE'S BANK WILL PROBABLY CHANNEL AS
MUCH OF THE INCREASE AS POSSIBLE BACK INTO THE BANKING SYSTEM
TO FINANCE GENERAL CONSTRUCTION.

7. TO SOME EXTENT THE INDUSTRIAL WAGE INCREASE WILL
WIDEN INDUSTRIAL/AGRICULTURAL INCOME DIFFERENTIALS,
MOVING THE COUNTRY AWAY FROM THE MAOIST IDEAL. THIS
WILL BE A SMALL PRICE TO PAY IF IT LEADS TO EFFECTIVE
LONG-TERM PRODUCTION INCENTIVES IN INDUSTRY, INCENTIVES
THAT WERE NEVER ABANDONED IN THE AGRICULTURAL SECTOR.
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